

**BCC Meeting:
May 4, 2021
Research Notes**

**Item No. 8A1
File No. 210680**

Research: JNF & ES / Reviewer: PGE & EA

RESOLUTION APPROVING AIRLINE VIP CLUB LEASE AGREEMENT BETWEEN AMERICAN AIRLINES, INC. AND MIAMI-DADE COUNTY FOR THE CONSTRUCTION, EXPANSION, AND LEASE OF VIP CLUB SPACE AT MIAMI INTERNATIONAL AIRPORT NORTH TERMINAL GATES D-15 AND D-30 RETROACTIVE TO DECEMBER 1, 2016 FOR A TERM OF 10 YEARS AND AN ANNUAL RENTAL AMOUNT OF \$5,445,772.19 IN THE INITIAL YEAR AND ADJUSTED EACH YEAR THEREAFTER IN ACCORDANCE WITH RESOLUTION NO. R-1054-90, COMMENCING UPON THE COMPLETION OF CONSTRUCTION AND EXPANSION; AUTHORIZING THE COUNTY MAYOR OR COUNTY MAYOR'S DESIGNEE TO EXECUTE SAME AND EXERCISE ALL RIGHTS CONFERRED THEREIN, INCLUDING TERMINATION AND TO PERFORM ALL ACTS NECESSARY TO EFFECTUATE SAME; AND DIRECTING THE COUNTY MAYOR OR COUNTY MAYOR'S DESIGNEE TO PROVIDE THE COUNTY PROPERTY APPRAISER A COPY OF SAID LEASE

Prime Sponsor: Commissioner Rebeca Sosa, District 6

Requester: Aviation Department (MDAD)

Committee Action Date: 4/13/21 - Airports and Economic Development Committee

RESEARCH FINDINGS

OCA's review of the item produced the following findings:

- This item, a retroactive agreement with American Airlines for lease of space for VIP Clubs at Gates D-15 and D-30, would commence at the expiration date of the previous lease, November 30, 2016. American Airlines has leased the space since 2006, through two separate five-year lease agreements approved administratively pursuant to Resolution No. R-487-93. Resolution No. R-487-93, adopted by the Board on April 27, 1993, authorized the Mayor to execute certain standard form Aviation Department leases at rental rates established by the Board, for such term(s) as may be appropriate, with use and occupancy not to extend beyond five years. American Airlines has continued to lease space under the terms of the previous agreement established under the authority of Resolution No. R-487-93 on a month-to-month basis for an additional four years and five months. The authorizing resolution incorporates language stating that all leases, including month-to-month and year-to-year, where the term can be expected to exceed five years will continue to be submitted to the Board for consideration. Thus, given that MDAD approved American Airlines' renovation plans, construction of which commenced in October 2015 for the Gate D-15 Club and in February 2016 for the Gate D-30 Club, indicating that American Airlines' lease of this space at Miami International Airport was likely intended to be long term and beyond the authorized five years, it is unclear why Board approval is being sought retroactively rather than in 2016 in anticipation of the expiration of the 2011 lease.

FINANCIAL ANALYSIS

The initial annual rental amount, \$5,545,772.19, for the first year of the lease agreement beginning on December 1, 2016 is to be adjusted each year thereafter on October 1st pursuant to Resolution No. R-1054-90, which authorizes MDAD to recalculate, publish and implement annually the rental rates applicable to Terminal Building Class I through Class V rental properties and concourse use and related charges. The below table summarizes the schedule of annual rental amounts.

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Figure 1 – American Airlines Rental Rates for VIP Clubs

Period	Annual Rental Rate
10/1/16 – 9/30/17	\$5,545,772
10/1/17 – 9/30/18*	\$5,953,907
10/1/18 – 9/30/19	8,001,702
10/1/19 – 9/30/20	8,457,518
10/1/20 – 9/30/21	\$7,901,391
TOTAL	\$35,902,167

* The renovation of the VIP Club at Gate D-30 resulted in square footage being added, and a consequential adjustment of the annual rental rate on August 8, 2018 from \$5,624,870 to \$7,850,357 producing a prorated rental rate for the period of 10/1/17 to 9/30/18 of approximately \$5,953,907.

The item provides for American Airlines paying the County a lump sum amount of \$6,749,755.69 for additional rental charges due from December 1, 2016 through February 28, 2021 as a result of the addition of 1,312 square feet to the VIP Club at Gate D-15 effective December 1, 2016 and the addition of 16,107 square feet to the VIP Club at Gate D-30 effective August 8, 2018.

MDAD estimates that American Airlines will pay the County a minimum of \$75,600,000 throughout the 10-year lease term.

On April 21, 2021, OCA requested the following financial and budgetary information from MDAD:

Has the expenditure or revenue (as applicable) been budgeted for?					
If yes:			If no:	If applicable:	
Provide the budget line item where this expenditure or revenue can be identified. Include the Budget Book Page number, if applicable.	Provide the funding or revenue source(s).	Provide the Financial index or account code.	Explain why this expenditure or revenue was not budgeted for, including how the expenditure will be addressed, or what the revenue will be utilized for.	Provide the actual revenue in FY19-20	Provide the projected revenue in FY20-21
Rental Income, Budget Book, Volume 3, pg. 136	Operating Revenue Fund	AV3001-6441211	-	Estimated Retroactive Revenue: \$8,457,518	Estimated Revenue: \$7,901,391

ADDITIONAL INFORMATION

This [item](#) was deferred at the April 9, 2019 Board meeting. When the item was presented then, the annual rental amount was \$8,002,330.98 the first year of the lease and was to be recalculated each year thereafter, with the estimation that

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American Airlines would pay the County a minimum of \$80,000,000 over the 10-year lease term, which was scheduled to commence upon the resolution becoming effective rather than being retroactive.

Domestic airline passengers are at less than 40% and foreign travel is at approximately 15% of 2019 levels, as [reported by Bloomberg](#). In March 2021, passenger traffic was [down only 20.2%](#) from March 2020. As a result of relief provided by the federal government in the [American Rescue Plan Act of 2021](#), American Airlines was able to [rescind 13,000 planned furloughs](#). The American Rescue Plan included \$15 billion for airlines and airline contractors.

Detailed below is the guest count for the VIP Clubs at Gates D-15 and D-30, including the MIA-Flagship Lounge, which is part of the VIP Club at Gate D-30.

Registration Year	Lounge Used	Total Guests	D30 Combined
2018	MIA-D15	422,664	
	MIA-D30	139,001	
	MIA-Flagship	400,387	539,388
2019	MIA-D15	332,459	
	MIA-D30	390,381	
	MIA-Flagship	461,406	851,787
2020	MIA-D15	67,643	
	MIA-D30	182,207	
	MIA-Flagship	109,391	291,598
2021	MIA-D30	96,908	
Grand Total		2,602,447	

The VIP Club at Gate D-15 was temporarily closed beginning mid-March of 2020 due to COVID-19. The MIA Flagship Lounge has been closed since end of March 2020 due to the pandemic. The remainder of the VIP Club at Gate D-30 has remained open.